

Message Text

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ACTION EA-09

INFO OCT-01 ISO-00 SEC-01 SP-02 USIA-15 AID-05 EB-07

NSC-05 CIEP-02 TRSE-00 SS-15 OMB-01 CEA-01 CIAE-00

COME-00 FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06 LAB-04

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FM AMEMBASSY MANILA

TO SECSTATE WASHDC 4286

INFO AMCONGEN HONGKONG

UNCLAS MANILA 5543

E.O. 11652: N/A

TAGS: EFIN, EINV, RP

SUBJ: PHILIPPINES INITIATES STOCK TRANSACTIONS DIRECTLY IN DOLLARS

REF: MANILA 3709

1. IN MID-MARCH, PRESIDENT MARCOS ORDERED ESTABLISHMENT OF A MECHANISM TO LIST STOCK SHARES FOR DIRECT TRADING IN FOREIGN CURRENCIES (REPORTED REFTEL). FOLLOWING STUDY OF THE MATTER BY THE MONETARY BOARD, CENTRAL BANK (CB), AND SECURITIES AND EXCHANGE COMMISSION (SEC), THE NECESSARY IMPLEMENTING REGULATIONS WERE ISSUED BY THE CB AND THE SEC ON APRIL 12. ACTUAL TRADING COMMENCED ON APRIL 22. THE NEW RULES, INCIDENTALLY, SUPERSEDE A CB CIRCULAR ISSUED ONLY ON MARCH 12, WHICH SUSPENDED REPATRIATION GUARANTEES FOR PROFITS FROM TRADING IN SPECULATIVE OIL AND MINING STOCKS.

2. TRANSACTIONS WILL BE IN US DOLLARS ON QTE DOLLARS BOARDS UNQTE ESTABLISHED BY THE STOCK EXCHANGES. SETTLEMENT OF TRANSACTIONS WILL BE THROUGH INSTRUMENTS FUNDED BY INWARD REMITTANCES OF FOREIGN EXCHANGE OR WITHDRAWAL FROM SO-CALLED CIRCULAR 343 FOREIGN CURRENCY DEPOSIT ACCOUNTS. THE CIRCULAR 343, OR FOREIGN CURRENCY DEPOSIT SYSTEM, UNCLASSIFIED

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WAS INTRODUCED IN 1970, AND PERMITS ANY INDIVIDUAL OR

CORPORATE ENTITY TO ESTABLISH A DEMAND, SAVINGS, OR TIME DEPOSIT IN A FOREIGN CURRENCY. PURCHASE AND SALE OF SECURITIES THROUGH THE DOLLAR BOARDS IS, ACCORDING TO THE AUTHORIZING CB CIRCULAR, QTE IN ORDER TO PRESERVE ELIGIBILITY TO REPATRIATION PRIVILEGES, BOTH OF CAPITAL AND PROFITS, OR TO REDEPOSIT OF PROCEEDS OF SALE TO THE CIRCULAR NO. 343 FOREIGN CURRENCY DEPOSIT ACCOUNTS UNQTE.

3. DOLLAR BOARD TRANSACTIONS WILL BE LIMITED TO QTE B UNQTE SHARES. B SHARES ARE ELIGIBLE FOR OWNERSHIP BY PHILIPPINE CITIZENS OR NON-CITIZENS, WHILE A SHARES CAN BE OWNED ONLY BY CITIZENS. THIS SYSTEM OF SHARE DESIGNATION WAS INITIATED SOME TIME AGO IN ORDER TO PRESERVE OWNERSHIP NATIONALITY RATIOS ESTABLISHED BY LAW.

4. THE INITIAL DOLLAR PRICES OF SHARES WERE ESTABLISHED AT MARKET CLOSING ON APRIL 21, BASED ON THE INTER-BANK PESO-DOLLAR RATE AT THAT TIME.

5. COMMENT: INITIAL REACTION IN THE LOCAL PRESS HAS BEEN CAUTIOUS. DURING A CONVERSATION WITH AN EMBASSY OFFICER, THE CHAIRMAN OF THE SEC SAID THAT HE QTE HOPED UNQTE THAT THE TWO PRIMARY FEATURES OF THE PROGRAM -- REMOVAL OF FOREIGN EXCHANGE RISK AND ASSURANCE OF REMITABILITY -- WOULD BE INTERESTING TO POTENTIAL INVESTORS. THIS APPEARS TO BE AN IMAGINATIVE PROGRAM, AND IT WILL BE INTERESTING TO SEE WHETHER IT SUCCEEDS IN ATTRACTING FOREIGN INVESTMENT TO EQUITY SHARES.
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